

Poverty shown to damage decision-making

The mental bandwidth needed to deal with being poor leads to poor financial decisions, suggests an experiment that traveled from a New Jersey mall to villages in India.

Just being broke, in and of itself, damages people's abilities to make good decisions in a way roughly equivalent to losing 13 IQ points, or constantly losing a night's sleep, suggests a report out Thursday based on decision-making experiments.

Performed in a New Jersey mall and among sugar cane farmers in India, the experiments suggest that the mental bandwidth taken up with worries about being strapped explain the poor decision-making widely seen among low-income families. That includes taking costly payday loans to missing appointments. Rather than the poor being poor because they make bad decisions, they make bad decisions because they are poor.

"You and I would suffer the same way if we were broke," says study senior author Eldar Shafir of Princeton University. "It's not just abject poverty. Once your budget is constrained, your decision-making suffers."

In the experiments reported in the journal *Science*, Shafir and his colleagues first tested 336 shoppers at a New Jersey mall, people with an average household income of \$74,000. They were presented with financial problems such as deciding how to pay for hypothetical car repairs. Faced with easy \$150 car repairs, rich and poor alike made good decisions on whether to forgo the repairs, pay in full or take loans with varied, sometimes heavy, interest rates to pay for the repairs. The rich also performed well on weighing how to deal with \$1,500 repairs, but the poor did significantly worse, more often taking out onerous loans to immediately pay for repairs instead of longer-term ones with better rates. Variations in the experiments ruled out math anxiety, a lack of time or the structure of the test itself as an explanation for the results, leaving only the condition of being strapped as an explanation.

Looking to rule out cultural or seasonal explanations for the effect, the team next carried out similar experiments on 464 sugar cane farmers from 54 villages in the Tamil Nadu region of India. These small farmers are paid once yearly at varied times around the

year for their harvest. The researchers tested them when they had just been paid, and were flush, and when they were two months from their next payday, and broke. A similar pattern played out, with better financial decisions made by the same people when they were flush, compared to when they were broke 10 months later. The researchers tested for poor nutrition and physical stress as explanations, but found "attentional stress," persistent distractions from money worries weighing on decision-making, was a better explanation.

"Simply put, being poor taps out one's mental reserves," says University of Minnesota psychologist Kathleen Vohs, in a commentary on what she calls the "eye-opening" study. "These findings suggest that decisions requiring many trade-offs, which are common in poverty, render subsequent decisions prone to favoring impulsive, intuitive, and often regrettable options."

Shafir acknowledges the study results contrast with "pick yourself up by your own bootstraps" thinking about escaping poverty. "We only have so much bandwidth to make decisions and if yours is taken up daily with child care and getting to work on time when your boss yelled at you yesterday, you won't make good decisions," he says.

Vohs and the study authors suggest that ways to foster better decisions could include streamlining long forms and repeated appointments often imposed on the poor by unemployment agency bureaucracies. And they call for simplifying work hours and offering better access to child care, as well. The study offers another argument for further restricting high-interest "payday" loans..

What Dave Ramsey gets wrong about poverty



Financial advisor Dave Ramsey is also an evangelical Christian.



Opinion by **Rachel Held Evans**, *special to CNN*

(CNN)— Dave Ramsey is rich. And he makes his living telling other evangelical Christians how they can get rich, too.

Host of a nationally syndicated radio program and author of multiple best-selling books, Ramsey targets evangelical Christians with what he calls a “biblical” approach to financial planning, one that focuses primarily on the elimination of consumer debt. His for-profit Financial Peace University is billed as “a biblically based curriculum that teaches people how to handle money God's ways.”

Much of what Ramsey teaches is sound, helpful advice, particularly for middle-class Americans struggling with mounting credit card bills. I have celebrated with friends as they’ve marked their first day of debt-free living, thanks in part to Dave Ramsey’s teachings and all those white envelopes of cash he urges his

students to use instead of credit cards.

But while Ramsey may be a fine source of information on how to eliminate debt, his views on poverty are neither informed nor biblical.

Take, for example, a [recent article by Tim Corley](#) posted to Ramsey's website. Entitled "20 Things the Rich Do Every Day," the article presents some dubious statistics comparing the habits of the rich with the habits of the poor, including:

"70% of wealthy eat less than 300 junk food calories per day. 97% of poor people eat more than 300 junk food calories per day."

"76% of wealthy exercise aerobically four days a week. 23% of poor do this."

"63% of wealthy listen to audio books during commute to work vs. 5% of poor people."

One need not be a student of logic to observe that Corley and Ramsey have confused correlation with causation here by suggesting that these habits make people rich or poor.

For example, a poor person might not exercise four days a week because, unlike a rich person, she cannot afford a gym membership. Or perhaps she has to work two jobs to earn a living wage, which leaves her little time and energy for jogging around the park.

A poor family may eat more junk food, not because they are lazy and undisciplined, but because they live in an economically disadvantaged, urban setting where health food stores are not as available: a so-called "food desert."

Critics were swift to point out these discrepancies and among the critics were [some of Ramsey's fellow evangelical Christians](#) who also noted that, though the book of Proverbs certainly heralds success as a common return on faithful labor, nowhere does the Bible guarantee that good habits lead to wealth.

The writer of Ecclesiastes observed that "under the sun the race is not to the swift, nor the battle to the strong, nor bread to the wise, nor riches to the intelligent, nor favor to the skillful; but time and chance happen to them all."

And far from having contempt for the poor, Jesus surrounded himself with the needy and challenged the excesses of the rich. "Blessed are you who are poor," he said, "for yours is the kingdom of God. ... But woe to you who are rich, for you have already received your comfort" (Luke 6:24).

"It is easier for a camel to go through the eye of a needle," Jesus famously said, "than for someone who is rich to enter the kingdom of God."

It's hard for the wealthy to flourish in the kingdom that Jesus inaugurated because the economy of that kingdom runs so contrary to the economies of the world. It rewards the peacemakers over the powerful, the humble over the proud, the kind over the cruel, and those who hunger to do the right thing over those whose wealth has convinced them they already are.

Ramsey responded to the pushback with an addendum to the original post calling his critics "ignorant" and "immature" and instructing them to "grow up."

"This list simply says your choices cause results," he said, again committing the false cause fallacy. "You reap what you sow."

The list, he said, applies only to people living in "first world" countries, where Ramsey believes economic injustices are essentially nonexistent. While the poor in developing countries are so as a result of external circumstances beyond their control, the poor in the United States have no one to blame but themselves.

"If you are broke or poor in the U.S. or a first-world economy, the only variable in the discussion you can personally control is YOU," Ramsey says. "You can make better choices and have better results."

America, he argues, has prospered as a direct result of its "understanding and application of biblical truths" which have led to "life-changing industry, inventions and a standard of living never known before on this planet."

"There is a direct correlation," he concludes, "between your habits, choices and character in Christ and your propensity to build wealth."

For Christians, Ramsey's perceived "direct correlation" between faith and wealth should be more troubling than his other confused correlations, for it flirts with what Christians refer to as the prosperity gospel, the teaching that God rewards faithfulness with wealth.

Ramsey's particular brand of prosperity gospel elevates the American dream as God's reward for America's faithfulness, the spoils of which are readily available to anyone who works hard enough to receive them.

But such a view glosses over the reality that America was not, in fact, founded upon purely Christian principles (unless one counts slavery, ethnic cleansing, gender inequity, and Jim Crow as Christian

principles), so we should be careful of assuming our relative wealth reflects God's favor. (The Roman Empire was wealthy, too, after all.)

It also glosses over the reality that economic injustice is not, in fact, limited to the developing world but plagues our own country as well.

When medical bills are the biggest cause of bankruptcy in the United States, there are systemic injustices at work.

When people working 40-hour weeks at minimum wage jobs still can't earn enough to support their families, there are systemic injustices at work.

When approximately 1% of Americans hold 40% of the nation's wealth, there are systemic injustices at work.

When the black unemployment rate has consistently been twice as high as the white unemployment rate for the past 50 years, there are systemic injustices at work.

And throughout Scripture, people of faith are called not simply to donate to charity, but to address such systemic injustices in substantive ways.

The 17-year-old girl who lives in a depressed neighborhood zoned for a failing school system who probably won't graduate because her grades are suffering because she has to work part-time to help support her family needs more than a few audio books to turn things around.

People are poor for a lot of reasons, and choice is certainly a factor, but categorically blaming poverty on lack of faith or lack of initiative is not only uninformed, it's unbiblical.

God does not divide the world into the deserving rich and the undeserving poor. In fact, the brother of Jesus wrote that God has "chosen the poor in the world to be rich in faith and heirs of the kingdom that he has promised to those who love him" (James 2:5).

God does not bless people with money; God blesses people with the good and perfect gift of God's presence, which is available to rich and poor alike.

And that's good news.

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